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SHEPPARD, MULLIN, RICHTER & HAMPTON LLP
A Limited Liability Partnership
Including Professional Corporations
ORI KATZ, State Bar No. 209561
KIRK RIDER, State Bar No. 364539
Four Embarcadero Center, 17th Floor
San Francisco, California 94111-4109
Telephone: (415) 434-9100
Facsimile: (415) 434-3947
Email: okatz@sheppard.com
krider@sheppard.com

Proposed Counsel for Highlands Community Charter and Technical Schools

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION

In re Highlands Community Charter and Technical Schools, Debtor and Debtor in Possession.[1]	Case No. 26-25868 Chapter 11 **DCN: SMR-10** Judge: Hon. [●] Date: [●], 2026 Time: [●] Place: [●]

MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF THE DEBTOR'S EMERGENCY MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING THE DEBTOR TO (A) PAY PREPETITION WAGES, SALARIES, AND OTHER COMPENSATION, (B) CONTINUE EMPLOYEE BENEFITS, (C) HONOR CERTAIN PREPETITION OBLIGATIONS RELATED THERETO; AND (II) GRANTING RELATED RELIEF

[1] The last four digits of the Debtor's federal tax identification number is 0967. The mailing address for the Debtor is 1111 Howe Ave., Suite 505, Sacramento, CA 95825.

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Highlands Community Charter and Technical Schools ("HCCTS" or, the "Debtor"), a non-profit public benefit corporation organized under the laws of the State of California, and the above-captioned debtor and debtor-in-possession in this voluntary chapter 11 case (the "Chapter 11 Case") filed on the date hereof (the "Petition Date") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), hereby submits this Memorandum of Points and Authorities (the "Memorandum") in support of its motion (the "Motion") for entry of orders, substantially in the form attached to the Exhibit List as Exhibit A and Exhibit B (the "Interim Order" and the "Final Order," respectively) filed concurrently herewith, pursuant to §§ 105(a), 362(d), 363(b), and 507(a) of the Bankruptcy Code, Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Rules 9014-1(f)(3) and (4) of the Local Rules of Practice (the "LBR"): (i) authorizing the Debtor to (a) pay prepetition wages, salaries, and other compensation, (b) continue employee benefits, (c) honor certain prepetition obligations related thereto; (ii) scheduling a final hearing; and (iii) granting related relief. In support of the Motion, the Debtor refers to the *Declaration of Jonathan Raymond in Support of Chapter 11 Petition and First Day Motions* (the "First Day Declaration") and the *Declaration of Jonathan Raymond in Support of Debtor's Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to (A) Pay Prepetition Wages, Salaries, and Other Compensation, (B) Continue Employee Benefits, and (C) Honor Certain Prepetition Obligations Related Thereto; and (II) Granting Related Relief* (the "Raymond Declaration"), and the exhibits in support of the Motion (the "Exhibit List"), filed contemporaneously herewith, and such other evidence and testimony as may be presented at the hearing on the Motion (the "Hearing").

I. JURISDICTION AND VENUE

The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and General Orders 182 and 223 of the United States District Court for the Eastern District of California. The Debtor confirms its consent, pursuant to Bankruptcy Rule 7008, to the entry of a final order by the Court in connection with the Motion to the extent that it is later determined that the Court, absent

consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

The bases for the relief requested herein are §§ 105(a), 362(d), 363(b), and 507(a) of the Bankruptcy Code, Bankruptcy Rules 6003 and 6004, and LBRs 9014-1(f)(3) and (4).

II. FACTUAL BACKGROUND

A. General Background

The Debtor filed the Chapter 11 Case on the Petition Date. The Debtor is operating its business and managing its properties as a debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in this Chapter 11 Case, and no committees have been appointed or designated.

The Debtor is a California non-profit public benefit corporation that owns, manages and operates two adult-serving charter schools in Sacramento County: Highlands Community Charter School ("HCCS") and California Innovative Career Academy ("CICA" and, together with HCCS, the "Schools"). The Twin Rivers Unified School District ("Twin Rivers") issued the current charters (the "Charters") that authorize HCCTS to operate both HCCS and CICA. Since opening in August 2014, HCCTS has served approximately 60,000 students. The Debtor is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. A more detailed description of the Debtor, including its current and historical business operations and the events precipitating the Chapter 11 Case, are set forth in the First Day Declaration.

B. The Debtor's Workforce

As of the Petition Date, the Debtor has a workforce of approximately 167 employees (collectively, the "Employees"), of whom approximately 38 are paid hourly and the remainder are paid on a salaried basis. The Employees include management and human resources personnel, teachers, pupil support staff, certificated supervisors and administrators, classified supervisors and

administrators, instructional aides, maintenance staff, clerical staff, technical staff, and office staff. In addition to the Employees, the Debtor supplements its workforce by utilizing the services of independent contractors to support various financial back-office functions, including accounting, budgeting, and mandatory compliance reporting. As of the Petition Date, the Debtor utilizes approximately six independent contractors (collectively, the "Independent Contractors").

The Employees and Independent Contractors perform a variety of critical functions for the Debtor, and their knowledge, skills, and understanding of the Debtor's operations are essential to the Debtor's ability to continue providing educational services to students. Failure to maintain the continued, uninterrupted services of the Employees and the Independent Contractors could detrimentally affect the stability of the Debtor's operations and jeopardize the success of this Chapter 11 Case.

C. Employee Compensation and Benefits Programs

In the ordinary course of business, the Debtor maintains, and incurs obligations on account of, a variety of compensation and benefits programs related to its Employees (collectively, the "Employee Compensation and Benefits"). To minimize both disruptions to the Debtor's operations and the personal hardship that the Employees will suffer if prepetition Employee Compensation and Benefits are not paid when due or as otherwise expected—as well as to maintain Employee morale and a focused workforce during this critical time—the Debtor seeks authority, but not direction, to pay and honor certain prepetition claims relating to, or on account of, the Employee Compensation and Benefits.

The Debtor's Employee Compensation and Benefits programs and the estimated outstanding prepetition amounts owed as of the Petition Date on account of each are set forth in the following table:

Employee Compensation and Benefits	Interim Amount	Final Amount[2]
Employee Wages	$311,225	$311,225
Payroll & Administrative Service Fees	$8,136	$8,136
Independent Contractor Compensation	$360	$360
Withholding Obligations	$271,152	$271,152
Reimbursable Expenses	$10,103	$10,103
Unemployment Obligations	$723,600	$723,600
Employee Leave Benefits	$241,242	$241,242
Health and Welfare Benefits	$57,345	$57,345
Retirement Savings Plans	$277,497	$277,497
Total:	**$1,900,660**	**$1,900,660**

Subject to the Court's approval, the Debtor intends to continue its prepetition Employee Compensation and Benefits in the ordinary course of business. Out of an abundance of caution, the Debtor requests confirmation of its right to modify, change, and/or discontinue any of its Employee Compensation and Benefits and/or to implement new programs, policies, and benefits in the Debtor's sole discretion and in the ordinary course of business during this Chapter 11 Case (subject in all respects to the terms of the Interim Order and Final Order as applicable), and without the need for further Court approval, subject to applicable law.

Each of the Debtor's Employee Compensation and Benefits programs is described in further detail below. For the avoidance of doubt, the Debtor does not seek authority to pay any amounts in excess of the $17,150 per employee limit (the "Priority Cap") set forth in §§ 507(a)(4) and 507(a)(5) of the Bankruptcy Code for prepetition priority claims earned within the 180 days prior to the Petition Date.

D. Employee Wages

In the ordinary course of business, the Debtor incurs obligations to its Employees for wages, salaries, and related obligations (the "Employee Wages"). The Employees are paid on a semi-monthly basis. On average, the Debtor pays approximately $1,401,579 per month on account of net

[2] For the avoidance of doubt, the amounts listed in the "Final Amounts" column are inclusive of the amounts listed in the "Interim Amounts" column.

Employee Wages, excluding all applicable taxes and deductions withheld from Employees' gross pay, which are discussed separately below. The Debtor last ran a payroll cycle on October 2, 2026, and the Debtor's next payroll cycle is scheduled for October 22, 2026.

As of the Petition Date, the Debtor estimates that it owes approximately $311,225 on account of accrued Employee Wages, approximately all of which is currently or will become payable during the first 26 days of this Chapter 11 Case (the "Interim Period"). Accordingly, the Debtor seeks authority, but not direction, to pay all outstanding prepetition amounts on account of the Employee Wages, and to continue paying the Employee Wages on a postpetition basis in the ordinary course of business and consistent with past practices.

E. Payroll and Administrative Service Fees

In the ordinary course of business, the Debtor makes payments to third-party service providers that the Debtor utilizes to assist with payroll processing and certain other critical back-office functions, including the Paylocity Fees and the CSMC Fees (each as defined below and, collectively, the "Payroll and Administrative Service Fees").

The Debtor utilizes the services of Paylocity Corporation ("Paylocity") as its payroll processor and to assist with related functions, including tax computation and withholding, payment preparation, and payroll transfer administration. Specifically, Paylocity is responsible for ensuring that (i) Employees are paid on time, (ii) appropriate deductions are made, (iii) payroll reporting is accurate, and (iv) appropriate amounts are remitted to the applicable taxing authorities and other payees. On average, the Debtor pays Paylocity approximately $2,800 per month in fees (the "Paylocity Fees"). As of the Petition Date, the Debtor estimates that it owes approximately $640 to Paylocity on account of prepetition Paylocity Fees.

The Debtor utilizes the services of Charter School Management Corporation ("CSMC") to assist with various critical back-office functions, including payroll support, internal accounting, budgeting, compliance reporting, retirement reporting, accounts payable and receivable support, and human resources support. The Debtor pays CSMC pursuant to a multi-year contract with a current term from June 1, 2026 through June 30, 2029. CSMC's fees are calculated at 1.5% of the Debtor's

total revenue per year, subject to a minimum annual fee of $100,000, and paid monthly (the "CSMC Fees"). As of the Petition Date, the Debtor estimates that it owes approximately $7,497 to CSMC on account of accrued CSMC Fees.

As of the Petition Date, the Debtor estimates that it owes approximately $8,136 on account of accrued Payroll and Administrative Service Fees, approximately all of which is currently or will become payable during the Interim Period. Pursuant to the Motion, the Debtor seeks authority to pay all outstanding prepetition amounts owing on account of the Payroll and Administrative Service Fees, and to continue payment postpetition in the ordinary course of business and consistent with prepetition practices.

F. Independent Contractor Compensation

The Debtor generally makes payments on account of services provided by the Independent Contractors (the "Independent Contractor Compensation") on a monthly basis pursuant to the terms of the Debtor's agreements with the Independent Contractors. The Independent Contractors provide critical services to the Debtor, and the Debtor's ability to continue paying Independent Contractor Compensation in the ordinary course of business is critical to minimizing any disruptions to the Debtor's operations postpetition. On average, the Debtor pays approximately $34,000 per month on account of Independent Contractor Compensation.

As of the Petition Date, the Debtor estimates that it owes approximately $300 on account of accrued Independent Contractor Compensation, approximately all of which is currently or will become payable during the Interim Period. Accordingly, the Debtor seeks authority, but not direction, to pay all outstanding prepetition amounts on account of Independent Contractor Compensation and to continue paying Independent Contractor Compensation on a postpetition basis in the ordinary course of business and consistent with past practices.

G. Withholding Obligations

In the ordinary course of business, the Debtor incurs obligations on account of Payroll Deductions and Payroll Taxes (each as defined below and collectively, the "Withholding Obligations"). As of the Petition Date, the Debtor believes that it owes approximately $271,152 on

account of accrued Withholding Obligations, approximately all of which is currently or will become payable during the Interim Period. Accordingly, the Debtor requests authority, but not direction, to continue to honor its Withholding Obligations and to pay, or to direct Paylocity to pay, any prepetition claims with respect thereto in the ordinary course of business and consistent with past practices.

1. Payroll Deductions

Each pay period, the Debtor routinely deducts certain amounts from each Employee's gross payroll, including retirement savings plan contributions, health care benefits and insurance premiums, contributions under flexible spending plans, legally ordered deductions, voluntary "summer savings" contributions by teachers and other employees that do not work regular hours over summer break, and other miscellaneous deductions pursuant to the applicable Employee's enrollments under the Employee benefits programs discussed herein (collectively, the "Payroll Deductions"). Payroll Deductions are generally remitted by Paylocity to the appropriate third-party recipients on each payroll date. On average, Payroll Deductions total approximately $156,554 per month. As of the Petition Date, the Debtor estimates that it owes approximately $192,424 on account of Payroll Deductions, approximately all of which is currently or will become payable during the Interim Period.

2. Payroll Taxes

In addition to the Payroll Deductions, applicable laws require the Debtor to withhold amounts from each Employee's gross pay related to federal, state, local, and foreign income taxes, including Social Security and Medicare taxes, for remittance to the appropriate taxing authorities (collectively, the "Employee Payroll Taxes"). The Debtor must then match, from its own funds, amounts for Social Security and Medicare taxes and additional amounts for federal unemployment insurance based on a percentage of gross payroll (collectively, the "Employer Payroll Taxes," and together with the Employee Payroll Taxes, the "Payroll Taxes"). Payroll Taxes are generally processed and forwarded by Paylocity to the appropriate federal, state, and local taxing authorities in accordance with remittance intervals and deadlines established by those taxing authorities. On

average, Payroll Taxes total approximately $251,939 per month. As of the Petition Date, the Debtor estimates that it owes approximately $78,727 on account of Payroll Taxes, approximately all of which is currently or will become payable during the Interim Period.

H. Reimbursable Expenses

In the ordinary course of business, the Debtor reimburses Employees or pays invoices on their behalf for ordinary, necessary, and reasonable business expenses incurred in connection with their employment duties (collectively, the "Reimbursable Expenses"). Reimbursable Expenses typically include expenses related to transportation, mileage, meals, classroom and instructional supplies, professional development, and certain other employment-related expenses. Such expenses are incurred with the applicable Employee's understanding that he or she will be reimbursed by the Debtor in accordance with the Debtor's reimbursement policies. In order to obtain reimbursement, Employees must submit appropriate documentation regarding the expenses for which reimbursement is sought, which is then reviewed and approved by the Debtor's accounting department. In all cases, reimbursement is contingent on the Debtor's determination that the charges are for legitimate, reimbursable business expenses.

It is difficult for the Debtor to determine the exact amount of Reimbursable Expenses outstanding as of the Petition Date due to their irregular nature and because Employees may have expenses that they have yet to submit to the Debtor for reimbursement. The Debtor estimates that, as of the Petition Date, it owes approximately $10,103 in accrued Reimbursable Expenses, approximately all of which is currently or will become payable during the Interim Period. Accordingly, the Debtor seeks authority, but not direction, to pay all outstanding prepetition amounts on account of the Reimbursable Expenses and to continue paying the Reimbursable Expenses on a postpetition basis in the ordinary course of business and consistent with past practices.

I. Unemployment Obligations

The Debtor, like other California employers, is responsible for providing unemployment benefits to former Employees who have lost their jobs and meet certain eligibility requirements

established by the State of California's Employment Development Department ("EDD"). Unlike most private employers, the Debtor is a "reimbursing" employer within the meaning of California Unemployment Insurance Code § 803(b)(1) with respect to its unemployment insurance obligations. As a reimbursing employer, the Debtor does not make ongoing payroll-tax contributions to the Unemployment Fund or maintain an individual reserve account. Instead, the Debtor has elected, as permitted for nonprofit organizations under California Unemployment Insurance Code § 801, to reimburse the Unemployment Fund dollar-for-dollar for the actual cost of unemployment benefits paid to its former Employees and charged to its account, including with respect to the Debtor's recent reduction in force (collectively, the "Unemployment Reimbursement Obligations"). The Debtor's share of the Unemployment Reimbursement Obligations is billed by the EDD in arrears, generally on a quarterly basis, and the Debtor's third-party unemployment claims processor additionally invoices the Debtor periodically for related processing fees (the "Unemployment Administration Fees" and, together with the Unemployment Reimbursement Obligations, the "Unemployment Obligations").

As of the Petition Date, the Debtor estimates that it owes approximately $723,600 on account of accrued but unpaid Unemployment Obligations, approximately all of which is currently or will become payable during the Interim Period. Accordingly, the Debtor seeks authority, but not direction, to pay all outstanding prepetition amounts on account of the Unemployment Obligations, and to continue to honor the Unemployment Obligations on a postpetition basis in the ordinary course of business and consistent with past practices.

J. Employee Benefits

In the ordinary course of business, the Debtor makes various benefits programs available to the Employees and their dependents, including Employee Leave Benefits, Health and Welfare Benefits, the Retirement Savings Plans, and Other Voluntary Benefits (each as defined below and, collectively, the "Employee Benefits").[3] By the Motion, the Debtor seeks authority to pay any

[3] The descriptions of the Employee Benefits programs contained in the Motion are provided for convenience only and are qualified in all respects by the actual terms of such programs. Nothing contained in the Motion shall have the effect of modifying the terms of the Employee Benefits programs or altering any party's rights and obligations thereunder.

prepetition amounts owed on account of the Employee Benefits and to continue the Employee Benefits on a postpetition basis in the ordinary course and consistent with prepetition practice.

1. Employee Leave Benefits

The Debtor offers Employees certain paid and unpaid leave-related benefits (collectively, the "Employee Leave Benefits"), including, among other things, holidays, vacation, paid sick leave ("PSL"), bereavement leave, jury duty and witness duty, unpaid discretionary leave, leave under the Medical Emergency Leave-Sharing Program, and various other leaves of absence required by applicable California and federal law.

In the ordinary course of business, the Debtor provides paid leave to eligible Employees as follows. Eligible Employees are allotted 10 days or 80 hours of PSL per fiscal year (July 1 through June 30), or a prorated amount for employees hired mid-year, which may be used beginning on the 30th day of employment. PSL may be used for the diagnosis, care, or treatment of an existing health condition of the employee or a qualifying family member. Unused PSL is not paid out upon termination. The Debtor observes 12 holidays per year, during which eligible classified Employees receive time off with pay at their normal base rate. Regular full-time Employees who are classified staff or administrators and work at least a 249-day calendar are eligible for paid vacation that accrues based on employment status and length of service with the Debtor: classified Employees with 5 years of service or less accrue 80 hours per year; classified Employees with more than 5 years of service accrue 160 hours per year; and administrators accrue 160 hours per year. Vacation accrual is capped at 150% of an Employee's annual accrual amount, and vacation may not be utilized before it is earned. Teachers, Employees on a 240-day calendar, and part-time employees are not eligible for vacation days. All Employees are employed in the State of California, and pursuant to the requirements of California law, the Debtor pays Employees their accrued, unused vacation at their final rate of pay upon termination.

In addition to PSL, holidays, and vacation, the Debtor provides eligible Employees with certain other paid and unpaid Employee Leave Benefits, including: (i) up to 5 days of paid bereavement leave upon the death of a qualifying family member; (ii) up to 10 days of paid leave

for jury duty or witness duty; (iii) up to 80 hours per year of unpaid discretionary leave of absence for non-medical purposes, which does not carry over and is renewed at the beginning of each school year; (iv) a Medical Emergency Leave-Sharing Program, under which eligible Employees who have exhausted all available paid leave may receive donated accrued leave from other Employees on a voluntary and confidential basis in the event of a qualifying medical emergency, with donations made in full-day increments on a one-hour-to-one-hour basis and recipients limited to no more than 480 hours of donated leave within a rolling 12-month period; (v) up to 5 days of unpaid reproductive loss leave for eligible Employees; and (vi) other leaves of absence as required by applicable California and federal law, including leave under the Family and Medical Leave Act and the California Family Rights Act, pregnancy disability leave, military leave, and leave for victims of qualifying acts of violence. These other forms of Employee Leave Benefits do not involve incremental cash outlays beyond standard payroll obligations.

As of the Petition Date, the Debtor estimates that it carries approximately $241,242 in accrued and unused paid leave obligations on its books. This amount, however, is not a current cash payment obligation as Employees are only entitled to cash payments for accrued and unused paid leave upon the occurrence of specific circumstances, such as termination. Moreover, the Debtor anticipates that the Employees will utilize any accrued paid leave in the ordinary course of business, which will not create any material cash flow burdens beyond the Debtor's normal payroll obligations. Accordingly, the Debtor requests authority, but not direction, to continue to honor and pay amounts on account of the Employee Leave Benefits in the ordinary course on a postpetition basis, including making any cash-out payments of accrued paid leave with respect to Employees terminated after the Petition Date, subject to the Priority Cap.

2. Health and Welfare Benefits

The Debtor offers certain health and welfare benefits programs to eligible Employees, including the Medical Benefits, the Life Insurance and Disability Benefits, the ID Theft Protection Program, the Employee Assistance Program, the Workers' Compensation Program, and Other Voluntary Benefits (each as defined below and, collectively, the "Health and Welfare Benefits").

The Debtor provides the Health and Welfare Benefits directly through a variety of carriers and currently pays the premiums for medical, dental, and life insurance coverage for eligible Employees.

As of the Petition Date, the Debtor estimates that it owes approximately $57,345 on account of accrued Health and Welfare Benefits obligations, approximately all of which is currently or will become payable during the Interim Period. Pursuant to the Motion, the Debtor seeks authority to pay all outstanding prepetition amounts owing on account of the Health and Welfare Benefits, and to continue payment postpetition in the ordinary course of business and consistent with prepetition practices. The Health and Welfare Benefits and related obligations are detailed further below.

i. Medical Benefits

The Debtor offers various medical benefit plans to eligible Employees and their families, including the Medical Plans, the Dental Plans, the Vision Plan, the FSA Program, and COBRA (each as defined below and, collectively, the "Medical Benefits").

Medical Plans. The Debtor offers eligible Employees and their families the option to receive medical care and prescription drug insurance coverage by enrolling in either a Kaiser Permanente HMO plan or a Sutter Health Plus HMO plan (collectively, the "Medical Plans"). The Debtor pays 100% of participating Employees' premiums for employee-only coverage under the Medical Plans and pays a majority of premiums for dependent coverage, with Employees contributing the remainder through pre-tax payroll deductions. The coverage and associated costs under the Medical Plans differ depending on the applicable Employee's elections, as well as whether the Employee has any covered dependents. The Debtor makes payments on account of the Medical Plans monthly. On average, the Debtor pays approximately $290,759 per month on account of the Medical Plans. As of the Petition Date, the Debtor estimates that it owes approximately $22,982 on account of accrued obligations under the Medical Plans.

Dental Plans. The Debtor offers eligible Employees and their families the option to receive dental insurance coverage by enrolling in one of two plans offered by Delta Dental (collectively, the "Dental Plans"). The Debtor pays a portion of participating Employees' premiums under the Dental Plans. The coverage and associated costs under the Dental Plans differ depending on the applicable

Employee's elections, as well as whether the Employee has any covered dependents. The Debtor makes payments on account of the Dental Plans monthly. On average, the Debtor pays approximately $19,200 per month on account of the Dental Plans. As of the Petition Date, the Debtor estimates that it owes approximately $1,391 on account of accrued obligations under the Dental Plans.

Vision Plan. The Debtor offers eligible Employees and their families the option to receive vision insurance coverage by enrolling in a plan offered by VSP Vision Care (the "Vision Plan"). The Debtor pays a portion of participating Employees' premiums under the Vision Plan. The coverage and associated costs under the Vision Plan differ depending on the applicable Employee's elections, as well as whether the Employee has any covered dependents. The Debtor makes payments on account of the Vision Plan monthly. On average, the Debtor pays approximately $1,581 per month on account of the Vision Plan. As of the Petition Date, the Debtor estimates that it owes approximately $4,505 on account of accrued obligations under the Vision Plan.

FSA Program. The Debtor offers eligible Employees the option to contribute a portion of their pre-tax compensation to pay for certain health care or dependent care expenses through flexible spending accounts administered by WEX (the "FSA Program"). On average, the Debtor contributes approximately $4,175 per month in the aggregate to participating Employee's health care flexible spending account in connection with the FSA Program. Employee contributions are withheld from participants' pre-tax payroll and are included in the estimated amount of Payroll Deductions discussed above. As of the Petition Date, the Debtor estimates that it owes approximately $954 on account of accrued obligations under the FSA Program.

COBRA. Pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), employers are obligated to provide employees who have their employment terminated the option to continue health coverage under the employer's health benefits plans post-termination, at the employee's cost, for a limited period of time and under certain circumstances. Accordingly, COBRA benefits are provided by the Debtor to exiting Employees as required by law. Terminated

Employees who elect COBRA coverage pay 100% of the applicable premiums and administrative fees, and the Debtor does not incur any out-of-pocket cost on account of COBRA.

ii. Life Insurance and Disability Benefits

The Debtor offers certain types of life insurance and disability benefit plans to eligible Employees, in some cases automatically and in others upon an Employee's election (collectively, the "Life Insurance and Disability Benefits").

The Debtor provides eligible Employees with basic life insurance and basic accidental death and dismemberment ("AD&D") coverage equal to two times the Employee's annual salary, up to a maximum benefit of $500,000, through a plan (the "Basic Life & AD&D Insurance Plan") provided by Lincoln Financial Group ("Lincoln"), at no cost to Employees. Coverage under the Basic Life & AD&D Insurance Plan is subject to age-based reductions, with benefits reducing by 35% at age 65, an additional 25% at age 70, and an additional 15% at age 75. The Debtor also provides eligible Employees with the option to obtain supplemental life and AD&D insurance coverage for themselves, their spouses or registered domestic partners, and their children through Lincoln (collectively, the "Supplemental Life and AD&D Insurance Plans"). Employees may elect supplemental life insurance coverage in increments of ten thousand dollars $10,000 up to a maximum of two hundred fifty thousand dollars $250,000 or five times annual salary. The policies available to Employees pursuant to the Supplemental Life and AD&D Insurance Plans are entirely elective and funded exclusively by Employee contributions each pay period. The Debtor pays the premiums for the Basic Life & AD&D Insurance Plan directly to Lincoln.

The Debtor also provides eligible Employees with disability insurance through Lincoln at no cost to Employees, including a short-term disability plan (the "Short-Term Disability Plan") and a long-term disability plan (the "Long-Term Disability Plan" and, together with the Short-Term Disability Plan, the "Disability Plans"). The Debtor pays 100% of the premiums associated with the Disability Plans. Pursuant to the Short-Term Disability Plan, Employees who meet the definition of disabled are eligible to receive a weekly benefit of 20% of pre-disability earnings for Employees in states with statutory disability (such as California), or 60% of pre-disability earnings for

Employees in states without statutory disability, up to a maximum benefit of $1,500 per week. Benefits under the Short-Term Disability Plan begin after the 7th day of disability and are provided for up to 12 weeks. Pursuant to the Long-Term Disability Plan, Employees who meet the definition of disabled are eligible to receive a monthly benefit equal to 60% of their pre-disability earnings, up to a maximum benefit of $10,000 per month. Benefits under the Long-Term Disability Plan begin after a 90-day elimination period and continue to the later of age 65 or Social Security normal retirement age. The Debtor pays the premiums for the Disability Plans directly to Lincoln.

The Debtor makes payments on account of the Life Insurance and Disability Benefits monthly. On average, the Debtor pays approximately $6,573 per month on account of the Life Insurance and Disability Benefits. As of the Petition Date, the Debtor estimates that it owes approximately $4,993 on account of accrued obligations under the Life Insurance and Disability Benefits.

iii. ID Theft Protection Program

The Debtor offers eligible Employees identity theft protection coverage through Allstate Identity Protection (the "ID Theft Protection Program"). The ID Theft Protection Program provides enrolled Employees with credit monitoring across all three major credit bureaus, fraud alert notifications, social media and online identity monitoring, unemployment fraud monitoring, up to $1,000,000 in identity theft insurance, and up to $1,000,000 in cybercrime reimbursement coverage. The Debtor pays the premiums for employee-only coverage under the ID Theft Protection Program at no cost to the Employee. Employees may elect to enroll dependents for family coverage at additional cost, which is deducted from the Employee's payroll. The Debtor makes payments on account of the ID Theft Protection Program monthly. On average, the Debtor pays approximately $910 per month on account of the ID Theft Protection Program for employer-paid coverage. As of the Petition Date, the Debtor estimates that it owes approximately $2,237 on account of accrued obligations under the ID Theft Protection Program.

iv. Employee Assistance Program

The Debtor provides eligible Employees and their household members with access to an employee assistance program (the "Employee Assistance Program") through Optum. The Employee Assistance Program is a confidential program provided at no cost to Employees that offers on-demand guidance and resources to help address emotional and mental health concerns, relationship and marital conflicts, child and eldercare issues, substance abuse, grief and loss, legal and financial issues, and other everyday challenges. The Employee Assistance Program provides Employees and their household members with up to five (5) in-person counseling sessions per issue, per year, per individual, as well as unlimited toll-free phone access and online resources.

The Debtor pays the premiums for the Employee Assistance Program directly to Optum. The Debtor makes payments on account of the Employee Assistance Program monthly. On average, the Debtor pays approximately $148 per month on account of the Employee Assistance Program. As of the Petition Date, the Debtor estimates that it owes approximately $163 on account of accrued obligations under the Employee Assistance Program.

v. Workers' Compensation Program

The Debtor maintains workers' compensation insurance coverage for its Employees (the "Workers' Compensation Program") through a policy (the "WC Policy") provided by WCF National Insurance Company ("WCF"), with a current policy term from July 1, 2026 through July 1, 2027. The WC Policy provides statutory workers' compensation benefits for bodily injury by accident or disease and employers' liability coverage. On average, the Debtor pays approximately $16,485 per month in premiums and fees, regardless of the number of claims asserted through the WC Policy. As of the Petition Date, the Debtor estimates that it owes approximately $20,120 on account of accrued prepetition premiums and fees under the WC Policy.

The Debtor must continue the claim assessment, determination, adjudication, and payment process pursuant to the Workers' Compensation Program without regard to whether such liabilities arose before the Petition Date to ensure that the Debtor complies with applicable workers' compensation laws and requirements during the pendency of this Chapter 11 Case. As of the

Petition Date, the Debtor estimates that there are approximately 34 open claims under the Workers' Compensation Program.

Because the Debtor is statutorily and/or contractually obligated to maintain the Workers' Compensation Program, its inability to do so could result in adverse legal consequences that materially disrupt the Debtor's restructuring process. As such, the Debtor seeks (a) authority to continue and renew the Workers' Compensation Program in the ordinary course of business on a postpetition basis[4] and (b) a modification of the automatic stay solely to allow Employees to assert claims under the Workers' Compensation Program. In connection with this relief, the Debtor will continue contesting in good faith, as appropriate in the Debtor's business judgment, disputed claims and amounts related to the Workers' Compensation Program, if any.

vi. Other Voluntary Benefits

The Debtor offers eligible Employees the option to enroll in various additional voluntary benefit programs, including voluntary accident insurance, voluntary critical illness insurance, and voluntary hospital indemnity insurance, each provided through The Hartford (collectively, the "Other Voluntary Benefits"). Enrollment in the Other Voluntary Benefits is fully elective and paid for entirely by enrolled Employees at group rates. The Debtor withholds the applicable premiums from enrolled Employees' paychecks and remits those amounts to The Hartford on the Employees' behalf. Such withholdings are accounted for as part of the Payroll Deductions discussed herein. The Debtor does not make any employer contributions on behalf of enrolled Employees with respect to the Other Voluntary Benefits. However, out of an abundance of caution, the Debtor seeks authority, but not direction, to continue the Other Voluntary Benefits and honor obligations related thereto, including the timely remittance of withheld premiums, in the ordinary course of business postpetition.

[4] The Debtor's Workers' Compensation Program may change postpetition in the ordinary course of business due to changes in applicable laws and regulations, and the Debtor's ability to meet requirements thereunder. By the Motion, the Debtor also requests authority to make any changes to current policy and practices that become necessary, subject to applicable law.

3. Retirement Savings Plans

The Debtor provides eligible Employees with retirement benefits as described below. These retirement benefits are provided through CalSTRS, the 401(a) Plan, the 403(b) Plan, and the 457 Plan (each as defined below and, collectively, the "Retirement Savings Plans"). The Debtor makes employer contributions to CalSTRS and the 401(a) Plan as required by applicable law and the Debtor's policies. Employee contributions to the Retirement Savings Plans are deducted from Employees' paychecks and are accounted for as part of the Payroll Deductions discussed above. As of the Petition Date, the Debtor estimates that it owes approximately $277,497 on account of outstanding obligations related to Retirement Savings Plans, approximately all of which is currently or will become payable during the Interim Period. Pursuant to the Motion, the Debtor seeks authority to pay all outstanding prepetition amounts owing on account of the Retirement Savings Plans, and to continue payment postpetition in the ordinary course of business and consistent with prepetition practices. The Retirement Savings Plans and related obligations are detailed further below.

i. CalSTRS and 401(a) Plan

The Debtor's eligible certificated Employees participate in the California State Teachers' Retirement System ("CalSTRS"), a defined benefit retirement plan administered by the State of California. The Debtor is required by law to make employer contributions to CalSTRS each pay period based on a percentage of each certificated Employee's creditable compensation. Each eligible classified Employee working 30 or more hours per week participates in a defined contribution plan meeting the requirements of section 401(a) of the Internal Revenue Code (the "401(a) Plan"), which is administered by TCG Administrators. Pursuant to the 401(a) Plan, the Debtor contributes 10% of each participating Employee's compensation, and each participating Employee is required to contribute 5% of his or her compensation on a mandatory basis, which amount is processed as a Payroll Deduction. Vesting under the 401(a) Plan is 100% immediate.

The Debtor contributes approximately $267,702 per month on account of CalSTRS employer contributions and approximately $72,424 per month on account of 401(a) Plan employer

contributions. Administrative fees under the 401(a) Plan, including record-keeping fees, custodial fees, and investment advisory fees, are borne by plan participants and paid from plan assets, and the Debtor does not pay these fees directly. As of the Petition Date, the Debtor estimates that it owes approximately $233,588 on account of prepetition CalSTRS and 401(a) Plan employer contribution obligations.

In addition, prior to the Petition Date, the Debtor received certain refunds from CalSTRS of excess contributions attributable to certain former employees whose employment with the Debtor has since terminated (the "CalSTRS Refunds"). Under CalSTRS's refund process, CalSTRS returns both the employee and employer portions of the excess contributions to the Debtor as the remitting employer, and the Debtor is responsible for returning the employee portion to the applicable former employees, net of any authorized adjustments. The Debtor retains the employer portion of any such excess contributions. As of the Petition Date, the Debtor has not yet remitted the employee portion of CalSTRS Refunds owed to approximately 170 former employees, which the Debtor estimates totals approximately $43,909 in the aggregate. Because the employee portion of CalSTRS Refunds reflects amounts withheld from the applicable former employees' wages and held by the Debtor only as a conduit for their return, the Debtor believes such amounts are not property of the Debtor's estate. Accordingly, the Debtor seeks authority to remit the employee portion of CalSTRS Refunds to the applicable former employees in the ordinary course of business, and to remit future CalSTRS Refunds on a postpetition basis in the ordinary course of business and consistent with past practices.

ii. 403(b) and 457 Plans

In addition to CalSTRS and the 401(a) Plan, the Debtor offers all eligible Employees the opportunity to participate in a 403(b) defined contribution plan (the "403(b) Plan") and/or a 457 deferred compensation plan (the "457 Plan"), funded through pre-tax payroll deferrals or Roth deferrals. The 403(b) Plan and the 457 Plan are entirely voluntary and funded exclusively by Employee contributions, which are processed as Payroll Deductions. The Debtor does not make employer contributions to the 403(b) Plan or the 457 Plan. Accordingly, the Debtor estimates that,

as of the Petition Date, it does not owe any employer contribution amounts on account of the 403(b) Plan or the 457 Plan.

III. BASIS FOR RELIEF

As a result of the commencement of the Bankruptcy Case, and in the absence of an order from the Court providing otherwise, the Debtor will be prohibited from paying or otherwise satisfying its pre-petition obligations described above. Any delay in payment of the Employee Compensation and Benefits Programs will be detrimental to the Debtor's relationship with its Employees and its ability to maintain a stable workforce. The Debtor faces the possibility that continued operation, including the continued delivery of quality educational services to its students, would be significantly impaired if its Employees do not report for work or choose to look for alternative employment. At this early stage in the Bankruptcy Case, the Debtor cannot risk any disruption to its operations.

The amounts requested in the Motion are reasonable and necessary when viewed in the context of the number of Employees, the importance of preserving Employee services and morale, and the potential harm to the Debtor, its creditors, and the estate if these amounts are not paid. To maintain Employee morale at this critical time for the Debtor, and to minimize the personal hardship the Employees would suffer if prepetition employee-related obligations are not paid or honored when due, the Debtor seeks authority to honor in its discretion such obligations.

A. Payment of Withheld Amounts and Deductions That Are Not Property of the Estate Is Required by Law and Should be Allowed.

Section 541(b)(7) excludes from property of the estate money withheld from an employee's wages for contributions to employee benefit plans, such as a 403(b) plan or health insurance plan, as well as amounts withheld for contributions to a governmental plan under § 414(d) of the Internal Revenue Code, which includes CalSTRS. 11 U.S.C. § 541(b)(7). Section 541(d) excludes "[p]roperty in which the debtor holds, as of the commencement of the Bankruptcy Case, only legal title and not an equitable interest." 11 U.S.C. § 541(d). Deductions such as legally ordered wage garnishments, child support payments and Employee pension plan contributions as well as money

withheld by the Debtor from Employees' paychecks on account of various federal, state and local income, FICA, Medicare and other taxes (*i.e.*, the Withholding Obligations) fall within sections 541(b)(7) or 541(d) and do not constitute property of the estate. *See* 26 U.S.C. §§ 6672, 7501(a); *In re R&T Roofing Structures & Commercial Framing, Inc.*, 887 F.2d 981, 984–85 (9th Cir. 1989) ("It follows that withheld FICA and employee taxes are impressed with a statutory trust for the purposes of section 541."); *City of Farrell v. Sharon Steel Corp.*, 41 F.3d 92, 95–97 (3d Cir. 1994) (finding that state law requiring a corporate debtor to withhold city income tax from its employees' wages created a trust relationship between debtor and the city for payment of withheld income taxes); *In re DuCharmes & Co.*, 852 F.2d 194, 196 (6th Cir. 1988) (noting that individual officers of a company may be held personally liable for failure to pay trust fund taxes). The Debtor, therefore, requests that the Court recognize that the Withholding Obligations are not property of the Debtor's estate and, regardless of whether the Debtor collected the amounts prior to the Petition Date, authorize the Debtor to transmit such monies to the proper parties in the ordinary course of business. The employee portion of the CalSTRS Refunds is likewise excluded from property of the estate. The Debtor holds those funds only as a conduit for their return to the former employees from whose wages they were originally withheld, and thus holds, at most, bare legal title without any equitable interest. *Cf. Begier v. IRS*, 496 U.S. 53 (1990) (withheld trust-fund taxes are not property of the estate). The Debtor, therefore, similarly requests that the Court recognize that the employee portion of the CalSTRS Refunds is not property of the Debtor's estate and authorize the Debtor to remit such amounts to the applicable former employees in the ordinary course of business.

Similarly, California law requires the Debtor to maintain the Workers' Compensation Program. If the Debtor fails to maintain the Workers' Compensation Program, state law may prohibit the Debtor from operating. Payment of all Workers' Compensation Program amounts is therefore crucial to the Debtor's continued operations and the success of the Debtor's restructuring. The Debtor therefore requests that the Court authorize, but not direct, the Debtor to maintain the Workers' Compensation Program.

B. Certain Employee Compensation and Benefits Programs Are Entitled to Priority Treatment.

Sections 507(a)(4) and 507(a)(5) afford Employee Compensation and certain Employee Benefits earned within 180 days before the Petition Date priority treatment, to the extent such payments do not exceed the Priority Cap for each qualified individual. As priority claims, the Debtor is required to pay these claims in full to confirm a chapter 11 plan. *See* 11 U.S.C. § 1129(a)(9)(B) (requiring payment in full of certain allowed unsecured claims for (a) wages, salaries, or commissions, including vacation, severance, and sick leave pay earned by an individual, and (b) contributions to an employee benefit plan). As set forth above, the Debtor is not seeking authority to pay any amounts in excess of the Priority Cap, and the relief requested is accordingly limited to amounts already entitled to priority treatment. Because priority payment to the Employees is required, the requested relief merely affects the timing of such payment (*i.e.*, whether now or in the near future). *See* 11 U.S.C. §§ 507(a) and 1129(a).

Making such payments now will prevent disruption of the Debtor's operations and educational services to the community, avoid personal hardship to the Employees and their families, enhance value for the benefit of all interested stakeholders, and ensure continuity of educational services to students without interruption. It will also reduce the administrative burden that otherwise would be imposed in this Chapter 11 Case. The Debtor, therefore, believes it is advisable, prudent, and necessary under the circumstances described above to pay the prepetition wages, compensation and benefits due to its Employees as proposed.

C. Payment of the Employee Compensation and Benefits Is Necessary and Authorized by 11 U.S.C. §§ 363(b) and 105(a).

Authorizing payment of such prepetition employment expenses is an appropriate exercise of the Court's discretion under §§ 363(b) and 105(a), and bankruptcy courts routinely recognize the justifications set forth above for allowing a debtor to pay prepetition wages, compensation, and benefits. The Debtor has the right to adopt reasonable employment policies pursuant to Sections 1107 and 1108 and may use property of the estate to continue its operations under section 363(b).

See 11 U.S.C. §§ 1107, 1108, and 363(b). Section 363(b)(1) provides that "[t]he trustee, after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). Section 363(c)(1) allows the Debtor to use property of the estate in the ordinary course of business without court approval. Under Section 363(b), courts require only that the debtor "show that a sound business purpose" justifies the proposed use of property. *In re Montgomery Ward Holding Corp.*, 242 B.R. 147, 153 (D. Del. 1999); *see also Comm. of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063, 1070–71 (2d Cir. 1983) (requiring a "good business reason" to approve a sale pursuant to section 363(b)). Furthermore, courts recognize that a debtor-in-possession has a fiduciary duty to, among other things, protect and preserve the bankruptcy estate. *See In re CoServ*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002).

Additionally, Section 105(a) provides that a court "may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of" the Bankruptcy Code. Pursuant to section 105(a), courts have invoked the "necessity of payment" doctrine to authorize the immediate payment of a debtor's pre-petition obligations to unsecured creditors before plan confirmation when such payment is essential to the continued operation of the debtor in a chapter 11 reorganization. *See, e.g.*, *In re Lehigh & New Eng. Ry.*, 657 F.2d 570, 581 (3d Cir. 1981) (holding that a court may authorize payment of prepetition claims if such payment is essential to debtor's continued operation); *In re Just for Feet, Inc.*, 242 B.R. 821, 824–25 (D. Del. 1999) (holding that Section 105(a) "provides a statutory basis for payment of pre-petition claims"); 2 March, Ahart and Shapiro, California Practice Guide: Bankruptcy, ¶ 11:386, at 11–45 (2014) ("Most courts allow payment of prepetition employee wages up to the priority amount under the *'necessity of payment' doctrine*, which permits immediate payment of creditors who will not supply services or material essential to the conduct of the business until their pre-reorganization claims are paid.") (emphasis in original).

The Ninth Circuit has recognized the "necessity of payment" doctrine. In *Burchinol v. Cent. Wash. Bank (In re Adam's Apple, Inc.)*, 829 F.2d 1484, 1490 (9th Cir. 1987), the Ninth Circuit discussed the existence of two competing "fundamental tenets" of bankruptcy: (1) equality in the

treatment of all creditors; and (2) the rehabilitation of a debtor. The *Adam's Apple* court stated that the rehabilitation of a debtor "may supersede the policy of equal treatment" of creditors, and went on to describe such situations, specifically mentioning the payment of pre-petition wages and benefits to employees. *Id*. ("Cases have permitted unequal treatment of pre-petition debts when necessary for rehabilitation, in such contexts as (i) pre-petition wages to key employees; (ii) hospital malpractice premiums incurred prior to filing; (iii) debts to providers of unique and irreplaceable supplies; and (iv) peripheral benefits under labor contracts.").[5] The court went on to state that section 364(d), for example, "illustrates a Congressional willingness to subordinate the interests of pre-petition creditors to the goal of rehabilitation." *Id*.

In its discussion, the *Adam's Apple* court did not mention an earlier Ninth Circuit case, *In re B & W Enters., Inc.*, 713 F.2d 534 (9th Cir. 1983), which questioned whether the "necessity of payment" doctrine survived the 1978 changes to the Bankruptcy Code, and stated that, if it did, the court would apply the doctrine only to railroad cases "absent compelling reasons." *Id.* at 537. Ultimately, the court in that case declined to apply the doctrine because the appellants had not presented "sufficient justification" for extending the doctrine to the (non-railroad) debtor. *Id.* However, numerous courts throughout the country have held that the doctrine did survive the 1978 Bankruptcy Code changes and can apply to non-railroad debtors. *See In re Ionosphere Clubs, Inc*., 98 B.R. 174, 175-76 (Bankr. S.D.N.Y. 1989); *In re Just for Feet, Inc.*, 242 B.R. 821 (Bankr. D. Del. 1999); *In re Gulf Air*, 112 B.R. 152, 153 (Bankr. W.D. La. 1989) (finding that payment of pre-petition wage and benefit obligations was in the best interest of creditors and necessary for the successful reorganization of the debtor, the court granted the debtor's motion to pay pre-petition employee related expenses). Moreover, the *Adam's Apple* court in its discussion did not limit the doctrine to railroad cases only.

In numerous other recent chapter 11 cases, bankruptcy courts in the Ninth Circuit have approved payment of prepetition claims for wages, compensation, benefits and expenses in various

[5] *See also In re Ionosphere Clubs, Inc.*, *infra*, at 175-76 ("The policy of equality among creditor . . . may be of significance in liquidation cases under Chapter 7, however, the paramount policy and goal of Chapter 11, to which all other bankruptcy policies are subordinated, is the rehabilitation of the debtor.").

healthcare bankruptcy cases pursuant to § 105(a). *See, e.g.*, *In re Oroville Hospital*, No. 25-26877, [Docket No. 285] (Bankr. E.D. Cal., Jan. 15, 2026) (authorizing the debtors to pay prepetition wages and salaries and employment benefits and continue such on a postpetition basis); I*n re Tri-Valley Learning Corporation*, No. 16-43112, [Docket No. 71] (Bankr. N.D. Cal., Dec. 7, 2016) (same); *In re Beverly Community Hospital Ass'n*, No. 23-12359, [Docket No. 335] (Bankr. C.D. Cal., May 26, 2023) (same); *In re Verity Health System of California*, No. 18-20151-ER, Docket No. 75 (Bankr. C.D. Cal. Sept. 5, 2018) (same); *In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, No. 16-17463, [Docket No. 68] (Bankr. C.D. Cal., June 10, 2016) (same).

Accordingly, the Debtor respectfully requests that the Court authorize the Debtor to pay and continue the Employee Compensation and Benefits Programs in the ordinary course of business and consistent with past practice.

D. A Limited Waiver of the Automatic Stay for Workers' Compensation Claims Is Appropriate Here.

Section 362(a) operates to stay "the commencement or continuation, including the issuance or employment of process, of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the debtor that arose before the commencement of the case under this title." 11 U.S.C. § 362(a)(1).

Section 362, however, permits a debtor or other parties in interest to request a modification or termination of the automatic stay for "cause." *Id*. at § 362(d)(1). Cause exists here to modify the automatic stay to permit the Employees to proceed with workers' compensation claims in the appropriate judicial or administrative forum. As described above, the Debtor is statutorily and/or contractually obligated to maintain the Workers' Compensation Program, and its inability to do so could result in adverse legal consequences that materially disrupt the Debtor's restructuring process. The relief requested is narrow: it would permit Employees to pursue and liquidate workers' compensation claims in the ordinary, non-bankruptcy forum designed for that purpose, while leaving the Debtor free to contest disputed claims and amounts in good faith, and would not permit

Employees to execute against property of the estate outside the ordinary course of the Workers' Compensation Program. Staying the workers' compensation claims, by contrast, could have a detrimental effect on the financial well-being and morale of the Employees, without any corresponding benefit to the estate.

IV. PROCESSING OF CHECKS AND ELECTRONIC FUND TRANSFERS

The Debtor has sufficient funds to pay the amounts described in the Motion in the ordinary course of business through cash on hand. Moreover, under the Debtor's existing cash management system, the Debtor can readily identify checks or wire transfer requests relating to an authorized payment. As such, the Debtor believes there is minimal risk that unauthorized checks or wire transfer requests will be inadvertently honored. The Debtor therefore respectfully requests that the Court authorize all applicable financial institutions, upon the Debtor's request, to receive, process, honor, and pay any and all checks or wire transfer requests in respect of the relief sought in the Motion.

V. EMERGENCY CONSIDERATION

Bankruptcy Rule 6003 provides that, to the extent relief is necessary to avoid immediate and irreparable harm, the Court may issue an order within the first 21 days of a chapter 11 case granting "a motion to use, sell, lease, or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition." Fed. R. Bankr. P. 6003(b).

For the reasons discussed herein and in the Motion and First Day Declaration, the Debtor respectfully requests that the Court enter an interim order in the form set forth on Exhibit A to the Exhibit List filed concurrently herewith: (a) authorizing, but not directing, the Debtor to: (i) pay prepetition wages, salaries, and other compensation, (ii) continue employee benefits, and (iii) honor certain prepetition obligations related thereto; (b) scheduling a final hearing; and (c) granting related relief. The relief requested in the Motion is integral to the Debtor's ability to transition its operations into this Chapter 11 Case. Failure to obtain such authorization and other relief within the first 21 days of this Chapter 11 Case would severely disrupt the Debtor's operations at this critical juncture.

The requested relief is necessary to enable the Debtor to operate its business in the ordinary course, continue to deliver quality educational services without interruption, and preserve and maximize the value of the estate for the benefit of all stakeholders. Accordingly, the Debtor submits that it has satisfied the "immediate and irreparable harm" standard of Bankruptcy Rule 6003 and respectfully requests that the Court approve the relief sought in the Motion on an emergency basis.

VI. RESERVATION OF RIGHTS

Nothing herein shall constitute a waiver of any claims, rights, objections, or remedies available to the Debtor against any party. The Debtor expressly reserves the right to seek modification of any relief granted hereunder to the extent necessary to facilitate this Chapter 11 Case and the Debtor's ongoing operations, or as otherwise required to comply with any order entered by the Court in this Chapter 11 Case. Furthermore, nothing herein, nor any action taken in furtherance of the relief requested, shall be deemed or construed as: (i) an admission regarding the validity of any claim asserted against the Debtor, (ii) a waiver of the rights of the Debtor or any appropriate party in interest to contest any such claim, or (iii) an approval, adoption, or assumption of any agreement, contract, program, policy, or lease pursuant to section 365, nor shall anything herein otherwise limit or affect the Debtor's rights under section 365 to assume or reject any executory contract with any party. Similarly, in the event the Court grants the relief requested herein, any payment made in accordance with the Court's order shall not be deemed, and should not be interpreted, as an admission of the validity of any claim or as a waiver of the Debtor's right to challenge such claim at a later time. Finally, no provision of the relief requested herein shall be construed to require or obligate the Debtor to accept any services from any party.

VII. WAIVER OF BANKRUPTCY RULE 6004(A) AND 6004(H)

The Debtor requests a waiver of any applicable notice requirements under Bankruptcy Rule 6004(a) and any stay of the order granting the relief requested herein under Bankruptcy Rule 6004(h). As set forth above and in the First Day Declaration, the relief requested herein is necessary to avoid immediate and irreparable harm to the Debtor's ongoing operations and value-maximizing process. Accordingly, ample cause exists to justify waiver of the notice requirements under

Bankruptcy Rule 6004(a) and the 14-day stay imposed by Bankruptcy Rule 6004(h), to the extent such requirements and stay are applicable.

VIII. NOTICE

The Debtor will provide notice of the Motion and this Memorandum via first class mail, facsimile or email (where available) to: (a) the Office of the U.S. Trustee; (b) the holders of the twenty (20) largest unsecured claims against the Debtor filed in accordance with Bankruptcy Rule 1007(d); (c) the State of California through the Attorney General for the State of California; (d) the United States of America through the United States Attorney for the Eastern District of California; (e) Twin Rivers; (f) Paylocity; (g) CSMC; (h) East West Bank; (i) the Internal Revenue Service; (j) the United States Department of Education; and (k) parties that file with the Court and serve upon the Debtor requests for notice of all matters in accordance with Bankruptcy Rule 2002(i) (collectively, the "Notice Parties"). If the Court grants the relief requested by the Motion, the Debtor shall provide notice of the entry of the order granting such relief upon each of the foregoing parties and any other parties in interest as the Court directs. The Debtor submits that such notice is sufficient and that no other or further notice be given. No prior request for the relief sought herein has been made by the Debtor to any other court.

IX. CONCLUSION

AFor the reasons set forth herein, the Debtor respectfully requests entry of an order: (i) authorizing the Debtor to (a) pay prepetition wages, salaries, and other compensation, (b) continue employee benefits, and (c) honor certain prepetition obligations related thereto; (ii) scheduling a final hearing; and (iii) granting related relief.

Dated: October 4, 2026

SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

By */s/ Ori Katz*
ORI KATZ
Proposed Counsel for Highlands Community Charter and Technical Schools